

MEMORANDUM

To: Dale E. Bonner, Secretary
Business, Transportation and Housing Agency
980 Ninth Street, Suite 2450
Sacramento, CA 95814-2719

Date: December 31, 2009

From: Christopher J. Murphy, Director
Office of Traffic Safety
7000 Franklin Boulevard, Suite 440
Sacramento, CA 95823-1899


Subject: FISMA Transmittal Letter

As the appointed head of the Office of Traffic Safety, effective December 28, 2009, and in accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code Sections 13400 through 13407, I am submitting the attached report.

My department's systems of internal control have been reviewed within the biennial period ended December 31, 2009, using the review guidance provided by the Department of Finance. All significant weaknesses have been disclosed. Additionally, recommendations to improve and enhance program activation have been included.

Within 30 days after this report is submitted, we will provide to the Director of the Department of Finance a plan and schedule for correcting the identified inadequacies and weaknesses. The plan will be updated and submitted every six months until all corrections are completed.

In addition, I acknowledge that my department is in compliance with Government Code Section 12439.



CHRISTOPHER J. MURPHY
Director

Attachments



Office of Traffic Safety

INTERNAL CONTROL REVIEW
FOR THE BIENNIAL PERIOD ENDED DECEMBER 31, 2009

Arnold Schwarzenegger, Governor
Dale E. Bonner
Business, Transportation and Housing Agency Secretary

December 2009

**Business, Transportation and Housing Agency
Office of Traffic Safety
Organization Code 2700**

INTRODUCTION:

In accordance with the Financial Integrity and State Managers Accountability (FISMA) Act of 1983, the Office of Traffic Safety submits this report on the review of our systems of internal control for the biennial period ended December 31, 2009.

Should you have any questions please contact Michele Meadows, Assistant Director of Administration, (916) 509-3010 or mmeadows@ots.ca.gov.

BACKGROUND:

The California Office of Traffic Safety's (OTS) mission is to effectively and efficiently administer traffic safety grant funds to reduce traffic deaths, injuries, and economic losses.

Our vision statement is ambitious, yet simple: *Toward zero deaths, every 1 counts*. Our vision is to save lives. By being results-oriented and a thought-leader in the traffic safety arena, OTS proactively responds to emerging traffic safety issues thereby reducing death, injuries and economic costs through innovative and evidential-based programs.

To realize our vision we emphasize; 1) Provide quality service to our clients in all aspects of business practices and operating in such a way as to foster and support the success of efficient and effective programs, 2) Utilizing problem identification and evaluation to focus on the most pressing traffic safety problems and funding the most effective countermeasures, 3) Evaluating and improving policies and procedures by applying future oriented concepts of technology and management, and 4) Working in a collaborative and strategic fashion with other agencies, private sector businesses and community organizations to expand resources and extend our messages.

OTS grants touch as many state and local agencies as possible. There are eight program priority areas earmarked for grant funding: Alcohol and Other Drugs, Occupant Protection, Pedestrian and Bicycle Safety, Emergency Medical Services, Traffic Records, Roadway Safety, and Police Traffic Services. These activities are accomplished with 35 staff positions and an annual budget of approximately \$70 million.

The OTS Highway Safety Program is a partnership effort between the National Highway Traffic Safety Administration (NHTSA), Federal Highway Administration, and the states. OTS is primarily funded through the Federal Trust Fund from the NHTSA, with a small matching share from the Motor Vehicle Account, State Transportation Fund.

OTS has established, documented, and maintained a system of internal accounting and administrative control, which are communicated to employees, and modified, as appropriate, for changes in conditions.

VACANT POSITIONS:

During the time frame covered by this report, OTS has had no positions abolished as a result of Government Code Section 12439. To avoid the loss of vacant positions subject to Government Code Section 12439, OTS Human Resources staff works with program staff in their recruitment efforts to fill positions, process Personnel Action Requests, payroll, and STD. 607 Change in Established Positions forms on a timely basis, and monitors position loss dates.

RISK ASSESSMENT:

We have made a study and evaluation of the accounting and administrative controls of the Office of Traffic Safety (OTS) in effect as of December 28, 2009. Our study and evaluation was conducted in accordance with the guidance provided by the Department of Finance and the requirements of the State Administrative Manual Section 20060, and include reviews and tests we considered necessary in determining that accounting and administrative controls are in place and operative.

The OTS management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code Section 13402 *et seq.*, includes documenting internal control, communicating requirements to employees, and ensuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative controls are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual (SAM).

Our review and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the Evaluation of Risks and Controls section of this report.

In our opinion, the accounting and administrative controls at OTS in effect as of December 31, 2009, taken as a whole, were sufficient to meet the objectives stated above.

We conducted our risk assessment and internal control review to identify strengths and risks in the OTS accounting, administrative information technology and security controls and procedures. Accounting and administrative controls comprise of management's plan to ensure the safeguarding of state assets through adequate segregation of duties, restricted access, authorization, record keeping policies and procedures and internal review. Fiscal information security controls are

designed to protect information assets, and include electronic data processing security, data integrity, risk management and disaster recovery planning.

OTS has not undergone a formal internal review conducted by a State entity since the Department of Finance Internal Review as of March 2005. The Bureau of State Audits (BSA) began its formal audit of OTS in September 2009. They conducted the entrance conference and began preliminary review work. After two weeks, the BSA notified the Assistant Director of Administration that because OTS is considered a low risk department, the audit was suspended and BSA staff were reassigned to a priority audit of another department.

However, the National Highway Traffic Safety Administration (NHTSA) conducted a Management Review October 19-24, 2009. As part of the Management Review (MR) a formal examination was conducted on-site at the OTS office in Elk Grove, California.

This MR was conducted for the purpose of improving and strengthening the State of California's highway safety program to ensure efficient administration and effective planning, programming, implementation and evaluation of programs that have potential for saving lives. The review also documents the OTS administration and management of the federally funded highway safety program, including best practices.

The three programmatic areas which traditionally fall within the scope and confines of a MR include Organization and Staffing, Program Management and Financial Management. These three components are the foundation for the review and report.

Although the report is in the draft stages, three areas were noted by the NHTSA review team for commendation, signifying strong efforts to produce positive performance. NHTSA reviewers identified one management area that was found to be noncompliant (Finding) with State/Federal regulations and/or guidelines. The OTS is required to take the corrective action recommended to address noncompliance. NHTSA also identified three management areas (Management Considerations) that do not involve noncompliance. The recommended actions are not requirements, but are possible measures the OTS can take to resolve identified internal control weaknesses or to improve efficiency and effectiveness. The areas reviewed by NHTSA and the results were:

Organization and Staffing

- *No Findings*

Program Management

- Monitoring – *Commendation*
- Reporting of Grant Activity Based on Data Driven Performance Measures – *Commendation*
- Electronic Grant Processing - *Management Consideration*
- Separation of Fiscal Years in Multi-Year Grants – *Management Consideration*

Financial Management

- Carry Forward Balances – *Commendation*
- Section 410 Costs - *Management Consideration*
- Program Income – *Finding*

OTS reviewed the draft findings and recommendations listed in the MR as a basis for conducting our review of OTS. To determine the adequacy of the OTS control environment and control procedures, we observed operations, reviewed documents and reports, conducted interviews, tested transactions, and performed other procedures as we deemed necessary. Two of the NHTSA management review considerations are of appropriate risk to be included in this report and are addressed. In addition, those risks indentified in the 2007 FISMA report were re-evaluated.

EVALUATION OF RISKS AND CONTROLS:

Issue #1: Documentation of Policies and Procedures

Documentation describing the policies and procedures associated with various administrative processes within the office are not kept current as procedures change. The Administrative, Information Technology, and Support manuals need to be updated and revised.

Corrective Action: OTS will revise and update all appropriate processes and procedures in current manuals and developed as necessary new manuals for adequate documentation. All manuals will be kept in centralized location.

Issue #2: Formal Information Security Risk Assessment Has Not Been Conducted

OTS has not conducted a system-wide assessment of vulnerabilities and consequences associated with daily operations, such as physical security and access, systems documentation, protection of confidential information, and system reliability. OTS has a current and updated Operational Recovery Plan, however have not conducted test or activities to identify critical weaknesses, and the agency's plans for resuming operations following a possible disaster.

Corrective Action:

- Conduct a formal risk assessment to identify risks associated with the OTS information assets.
- Develop and implement a plan to address risk assessment findings and ensure adequate protection of states assets and OTS personnel.

Issue #3 - Inadequate Separation of Duties

OTS lacks adequate separation of duties over procurement functions, which increases the risk of loss or theft of the states' assets. It was noted the same employee initiates and receives purchases.

Corrective Action: Separate the purchasing/receipt functional duties.

OTS will revise duties and functions within the Administration Section to ensure the position noted no longer performs both functions of procurement. Duties will be reassigned to ensure that

receipt of and verification of purchases will result no staff person performing more than one of the critical procurement activities.

Issue #4: Documentation of Grant Files

As documented in the NHTSA Management Review, the OTS grant files contain all necessary information to review and monitor activities and compliance with rules and regulations.

However, the files are very large and complex because of the amount of grants and activities carried out during the grant periods. During the grant period grantees are required to provide quarterly progress and financial reports. After staff review, these reports are then manually entered into an electronic database. While the electronic database allows a person to retrieve documents, it does not have any utility for compilation of information, nor is it searchable for information to determine trends or to conduct analysis. With between 250 and 400 grantees in a given year, the amount of paper and space required to process grants, review claims, and general operations is staggering.

Corrective Action: OTS should implement of an electronic grant system. An E-Grant system could provide for a much more efficient way to manage the Highway Safety Grant Application process for both the OTS and the grant applicants by:

- Pre-populating as much information as possible
- Providing access to Locality-Specific Crash Data
- Reducing paper and postage costs
- Providing a means to save application data, reports, and amendments

Issue #5: Succession Planning

Within the next two years, OTS will experience the retirement of at least two key persons as a result of retirement. OTS being a small agency relies heavily on key personnel with critical knowledge of its program operations, funding and reporting requirements.

Corrective Action: OTS should establish a “cross-training” program for key positions, identify “areas of responsibility” for key staff-post retirement, and work with State Personnel Board (SPB) to facilitate the replacement process.

Issue #6: Documentation of Program Income Expenditures

23 CFR 1200.24 (c) states (c) *Use of program income —(1) Addition. Program income shall ordinarily be added to the funds committed to the Highway Safety Plan. Such program income shall be used to further the objectives of the program area under which it was generated.*

The OTS has funded several grants that receive program income. These grants involve impound programs which receive administrative fees to reclaim an impounded vehicle. The OTS grant agreements are very specific that these funds be segregated and used to further the purposes of the grant agreements. All of the grants reviewed that had program income reported on the amount of income generated during the grant agreements as part of their quarterly reports. However, there was no accounting for expenditure of the funds to further the purposes of the grant either during or after the expiration of the grant. Therefore, there is no way to ensure that the grant funds are expended to further the purposes of the grant.

Corrective Action: The OTS shall develop a reporting process to monitor and ensure that all grants that earn program income during a grant continue to report on expenditures of those funds during and after the expiration of the grant.

CONCLUSION:

OTS continues to revise and develop new processes and procedures to effectively administer the state and federal funds to carryout the goals and objectives of the California Traffic Safety Program. In addition, OTS is committed to strengthen internal controls by implementing the recommendations to increase efficiency of operations and to safeguard and protect the states assets.

OTS management understands that internal control weaknesses, if left uncorrected, increase the risk that material errors or irregularities could occur and remain undetected, and could adversely affect our ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.